

# FOREIGN POLICY REPORTS

March 13, 1935

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## Brazil's Political and Economic Problems

BY HORACE B. DAVIS

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PUBLISHED FORTNIGHTLY BY THE

Foreign Policy Association, Incorporated

EIGHT WEST FORTIETH STREET, NEW YORK, N. Y.

VOLUME XI NUMBER I      25¢ a copy      \$5.00 a year

# Brazil's Political and Economic Problems

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*with the Aid of the Research Staff of the Foreign Policy Association*

## INTRODUCTION

WHEN the domination of São Paulo in Brazil's affairs was abruptly terminated in 1930 and Getúlio Vargas of Rio Grande do Sul was installed as dictator in October of that year, it looked as if a new chapter might open in Brazilian history. American observers were curious to see whether the 1930 "revolution" was merely a case of the "outs" coming "in," or whether the new government would proceed to a fundamental reorganization of governmental practices and of the Brazilian social system. A number of Americans have a practical as well as a theoretical interest in Brazil's internal affairs. Brazil takes between one and two per cent of the total exports of the United States. American capital invested in Brazil totals over half a billion dollars, and has been increasing rapidly in the post-war period. Brazil, moreover, ships a billion pounds of coffee per year to the United States, which is its best customer.

The group which seized the government in 1930 did not represent a new or different social class. Few of its promises of democratic reform have been fulfilled. The government's attention has been occupied with measures, only partly successful, to stave off the effects of the world economic depression and to weather a series of political crises both within and without the Vargas group.

Brazil is primarily an agricultural country. Most of its products and nearly all of its exports come from its plantations, orchards and ranches. Over 70 per cent of the occupied males listed in the last federal census (1920) were engaged in agriculture.<sup>1</sup>

1. Based on *Recenseamento do Brasil, 1920* (Rio de Janeiro, Typ. da Estatística, 1930), Vol. IV (5th Part), Tome I, p. 6-7. The total population was 30,635,605. It is now believed to be 44,000,000.

Manufacturing has developed rapidly in the fifteen years since the 1920 census was taken. In 1920 the men engaged in industry, mining and transport were 13.8 per cent of the total; the proportion is higher now, but Brazil has no heavy industry. Its light industry exists only by virtue of a protective tariff. The standard of living of the urban proletariat is distinctly lower than in northern Europe; wretched as it is, however, it contrasts favorably with the miserable degradation which characterizes the bulk of the rural population.

The agricultural regions of Brazil are for the most part organized in large tracts (*latifúndia*) controlled by a family or a single individual. These big ranchers and planters constitute the old Brazilian aristocracy. Their tenants are for the most part illiterate. Getúlio Vargas told the Constituent Assembly in 1933 that "out of 1,000 Brazilians who should properly receive elementary school education, 513 do not enter school, and of the remaining 487, some 110 register but do not come to classes; 178 attend the first year without learning to read well; 85 finish the second year and become superficially literate; 84 go a little further but do not manage to conclude their studies; and barely 30 get the full common elementary instruction, which is of very unequal value and admittedly deficient as to the thoroughness of the teaching, and which usually does not extend over more than three years, with all the pedagogical gaps which characterize the great majority of the schools in the interior."<sup>2</sup> Since those who have opportunities for education outside of school are few, the children of the new generation are growing up only 37.7 per cent "literate." The diet of the rural workers is poor and in-

2. *Diário da Assembleia Nacional*, I, No. 6 (Rio de Janeiro, November 16, 1933), p. 66.

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FOREIGN POLICY REPORTS, VOLUME XI, NUMBER I, MARCH 13, 1935

Published by-weekly by the FOREIGN POLICY ASSOCIATION, Incorporated, 8 West 40th Street, New York, N. Y., U. S. A. RAYMOND LESLIE BUELL, *President*; WILLIAM T. STONE, *Vice President and Washington representative*; VERA MICHELES DEAN, *Editor*; HELEN TERRY, *Assistant Editor*. *Research Associates*: T. A. BISSON, VERA MICHELES DEAN, WILLIAM KOREN, JR., HELEN H. MOORHEAD, DAVID H. POPPER, ONA K. D. RINGWOOD, CHARLES A. THOMSON, M. S. WERTHEIMER, JOHN C. DEWILDE. Subscription Rates: \$5.00 a year; to F. P. A. members \$3.00; single copies 25 cents. Entered as second-class matter on March 31, 1931 at the post office at New York, N. Y., under the Act of March 3, 1879.

adequate,<sup>3</sup> their clothing cheap and scanty,<sup>4</sup> their health appallingly bad. Referring primarily to the rural population, Director of Public Health Belisario Penna declared not long ago: "Thirty million human beings' without any earthly possessions are dying slowly in Brazil from hunger, syphilis and malarial diseases."<sup>5</sup> Brazil's outstanding problem is to rescue these agricultural workers, the mass of the population, from their misery, and furnish them with a decent livelihood—a task which the excellent natural resources of the country render by no means impossible.

#### MONOCULTURE AND ITS EFFECTS

Brazil's agricultural system at present retards the development of higher living standards. Monoculture, or concentration on a single money crop, characterizes the richest agricultural districts. Brazil's most important product is coffee, which constitutes 70 per cent of its exports. Two-thirds of the coffee comes from the state of São Paulo, where whole counties are devoted exclusively to this product. Other zones of monoculture are the sugar zone in Pernambuco, the cacao zone in Bahía, the herva matte (Paraná tea) zone in Paraná, the banana zone on the coast north and south of Santos, and the rubber zone in the interior of Pará.

Monoculture exhausts the soil and degrades labor. To monoculture is largely attributable the monotonous and unhealthy diet of the rural population.<sup>7</sup> Landlords competing on a world market find it necessary to cut labor costs to a minimum and are confronted by the problem of obtaining and holding on their large estates a sufficient force of workers to harvest the crop. This problem was solved in the early history of the country by slavery, which lasted until 1889. Since then peonage has developed on a large scale.

Monoculture has been favored by foreign interests, which have considered the production of crops saleable on the world market the only adequate safeguard for their loans to Brazilian planters, and

the means by which government borrowings might be repaid. Yet monoculture exposes the finances of both planters and government to the effects of uncontrolled and uncontrollable fluctuations in prices.

The economic crisis has focused attention on these defects in Brazil's traditional system. Sir Otto Niemeyer, British banker who headed an advisory mission to Brazil in 1931, strongly advised the country to terminate its exclusive dependence on coffee. The great drop in the price of coffee after 1929 caused many old coffee plantations to be turned over to different forms of agriculture. This "rush to polyculture" was hailed by informed Brazilian opinion as a progressive step.

In São Paulo, especially in the old coffee zone, a class of small farmers has begun to develop. But even there, it is estimated that the *latifundia* (mostly coffee plantations) still make up half of the cultivated area.<sup>8</sup>

Brazil's social system is unstable. Neither the rural workers nor the urban workers, many of whom are class-conscious European emigrants, have any strong interest in maintaining it. The army is proletarian in origin and has not always sided with the ruling class in a crisis. The minor officers in the army, of the rank of lieutenant and below, have a standing grievance in that the higher ranks are in effect reserved to sons of the ruling class. The famous bandit Lampeão (The Lantern), whose roaming bands have for years defied the police from Bahía to Maranhão and have sacked many a large estate, could hardly have maintained himself so long without a considerable measure of popular support, and the phenomenon which he typifies is a kind of inchoate social revolt.

#### INFLUENCE OF FOREIGN IMPERIALISM

Brazil has never ceased to depend on foreign capitalists for new capital and other services. The intervention of foreign capitalists in Brazil's political life has been exercised sometimes directly, through the grant and withdrawal of favors and the consequent exercise of influence on individual politicians; and sometimes indirectly, through the diplomatic intervention of foreign governments.

Foreign capitalists are interested in Brazil for five principal reasons: shippers who serve its ports and other middlemen are interested in developing Brazilian trade; importers of goods produced in Brazil are interested in the country as a source of supplies; foreign exporters are interested in Brazil as a market; investors attempt to place capital in remunerative enterprises or safe securities and then endeavor to protect their investments; bankers are interested

3. Interview with Dr. Paula Souza, director of the Institute of Hygiene, São Paulo.

4. Léon Regray, *Réflexions sur la Situation Economique et Financière du Brésil* (Brussels, Maison de l'Amérique Latine, 1934), p. 7.

5. I.e., about three-quarters of the total population.

6. Arnold Roller, in *Recovery through Revolution*, edited by Samuel D. Schmalhausen (New York, Covici-Friede, 1933), p. 149, quoting the conservative newspaper *A Noite*. That syphilis is more prevalent among Brazilians than among Europeans is indicated by a medical survey of some hundreds of workers, immigrant and native, engaged on a large construction project in Santos. Of the men recently arrived from Europe, perhaps 10 per cent were affected by venereal disease; of the native-born Brazilians, over half.

7. Gilberto Freyre, *Casa-Grande e Senzala* (Rio de Janeiro, Mala & Schmidt, 1934), p. xiv, 65.

8. Caio Prado Junior, in *Jornal do Povo* (Rio de Janeiro), October 16, 1934, p. 2.

in the commissions they receive for handling Brazil's financial transactions.

During the nineteenth century Great Britain exercised a preponderant influence on Brazilian affairs,<sup>9</sup> and British influence is still strong. British ships handle nearly twice as much Brazilian tonnage as the ships of any other non-Brazilian nation;<sup>10</sup> 19.2 per cent of Brazil's imports come from Great Britain and 7 per cent of its exports go to that country;<sup>11</sup> British investments in Brazil far overshadow those of the nationals of any other country; and Brazilian federal and state governments usually approach some London banking house first when they wish to float an important loan.

The only two countries which are at all comparable with Great Britain in the importance of their economic relations with Brazil are France and the United States. Until the World War, French capital invested in Brazil nearly equalled British; and France is somewhat more important than Britain as a market for Brazil's exports, although Brazil imports comparatively little from France.<sup>12</sup> A number of Brazilian government loans have been floated in Paris.

Americans have always been great consumers of coffee; per capita consumption is greater only in the Scandinavian countries.<sup>13</sup> The United States is consequently Brazil's best customer; in 1932, 45.8 per cent of all Brazil's exports went to this country.<sup>14</sup> The United States also supplies 30.2 per cent of Brazil's imports, or half as much again as Britain, the nearest competitor for Brazil's trade. The coffee export trade in Brazil is dominated by two or three American firms. Even before the war New York shared with London and Paris the business of floating Brazilian loans,<sup>15</sup> and since 1918 the importance of the United States as a capital market has greatly increased. It is in the field of investment that economic ties between Brazil and the United States have been most strengthened during the last fifteen years. In 1918 investments by

United States capitalists in Brazil amounted to barely \$50,000,000; by the end of 1930 the total had grown to 557 million.<sup>16</sup> At that time the United States investment in Brazil was probably greater than investment by any other country except Great Britain, and was growing at a more rapid rate than British investment.<sup>17</sup> Italians, Portuguese and Germans have important investments in Brazil. Japanese capitalists, supported by their government, have recently invested heavily in São Paulo state and in Amazonas. Japanese manufacturers are making vigorous efforts to expand their South American markets.

While there are certain areas where American, or alternatively British, French or Japanese, influence is particularly strong, it would be a mistake to speak of "spheres of influence" in Brazil, as for example in China. But struggles between groups of capitalists from different foreign countries have sometimes shaped the course of Brazilian history, and are assuming ever greater proportions.

Brazil's public finance and currency history has been influenced by the country's continued dependence on foreign capital markets. The budgets of the national government and of the states, and even of some of the larger counties, have been chronically unbalanced, and the difference has been made up by a succession of government loans contracted abroad. At the same time the real budgetary position has been concealed by an involved system of government bookkeeping. From time to time internal inflation, both open and concealed, has resulted in a depreciating foreign exchange. Government funds raised internally have come for the most part from the middle and working classes, through a system of indirect taxes. The wealthier classes have largely escaped taxation. Sir Otto Niemeyer recommended that Brazil terminate its dependence on foreign capital, diversify its agriculture, revise its budgetary system, make greater use of the neglected income and inheritance taxes, and emit paper money only through one central bank of issue.<sup>18</sup>

9. For a detailed history, cf. Alan K. Manchester, *British Pre-eminence in Brazil: Its Rise and Decline* (Chapel Hill, University of North Carolina Press, 1933).

10. Figures as of 1931; cf. *Brazil 1933* (Published by the Ministry of Foreign Affairs, Rio, 1933), p. 228.

11. Figures as of 1932; *ibid.*, p. 267-68. Other parts of the British Empire in the same year supplied 1.7 per cent of Brazil's imports and bought 1.3 per cent of Brazil's exports.

12. In 1932 imports from France were 5.1 per cent of Brazil's total imports, and exports to France were 8.9 per cent of the total. *Brazil 1933*, cited, p. 268.

13. *Ibid.*, p. 87.

14. *Ibid.*, p. 267-68.

15. J. T. Madden and Marcus Nadler, *Foreign Securities* (New York, Ronald, 1929), p. 291.

16. Cf. U. S. Department of Commerce, *Special Agents Series, Bulletin 169* (Washington, Government Printing Office, 1918), p. 214; and *Trade Information Bulletin 767* (Washington, Government Printing Office, 1931), p. 16.

17. It has been estimated that British capital invested in Brazil in 1929 was one half the total foreign investment. Max Winkler, *Investments of United States Capital in Latin America* (Boston, World Peace Foundation Pamphlets, 1929), p. 88. Wileman's *Brazilian Review* estimated that in 1927 there was one and a half times as much British money invested in Brazil as all other foreign capital combined. *South American Handbook for 1928*, p. 188, quoted by Manchester, *British Pre-eminence in Brazil*, cited, p. viii.

18. Report submitted to the Brazilian government by Sir Otto E. Niemeyer, K.C.B., G.B.E. (London, 4th July, 1931). These recommendations were never acted on.



Dependence on foreigners for services in floating loans has proved expensive for Brazil. The foreign bankers have received large commissions. But, further, their practices have on occasion imposed additional burdens on Brazil. For example, early in 1926 the state of São Paulo negotiated a loan of £10,000,000 in Britain. It was arranged that payments on this loan might be received in Brazil, although the holders of the bonds were in England. The British bankers through whom the loan had been floated—Lazard Brothers & Co.—foresaw that a transfer problem might arise if foreign exchange should run short, as it did in the fall of 1931. By ingenious manipulation, they succeeded in shifting to the state government the burden of transferring to England a large part of the principal and interest payments. The government had to resort to the illegal or "black" exchange market, and thereby lost some hundreds of thousands of dollars.<sup>19</sup>

It should be pointed out that, despite the extensive foreign interests in Brazil, much domestic Brazilian capital has also been invested in trade, industry and agriculture. The most important single financial interest in Brazil is believed to be the Matarazzo chain of factories, comprising something like eighty-five establishments.

The ruling group in each of the Brazilian states is a coalition of the large landowners with the upper urban bourgeoisie, supported sometimes by foreign capitalists. Since there are no large national parties, the ruling groups in the several states form alliances to govern Brazil as a whole.

#### POLITICAL REVOLTS, 1922-1932

From 1889 to 1930 there had been no successful revolt against this domination, although the so-called Copacabana revolt in 1922 and especially the more extended uprising of 1924 were symptomatic of growing unrest. Some troops which participated in the 1924 uprising continued in opposition to the government for two years before it was finally forced across the border and disbanded. This group was headed by Colonel Luiz Carlos Prestes, and became known as the "Prestes Column." Its program included the breaking up of the large estates, democratization of the electoral machinery, and opposition to foreign imperialist rule. It continued in existence as a political force even after its military resistance had ceased.

#### THE "REVOLUTION" OF 1930

The uprising of 1930 represented a revolt against São Paulo's domination of the national govern-

ment. Ever since the 1880's, when the great expansion of coffee planting in São Paulo began, coffee production had perennially tended to outrun consumption. On three occasions—in 1906, in 1917, and in 1921—the government had intervened to acquire surpluses or regulate new production, or both. The first intervention had been crowned with success, and the second had proved vastly profitable. Since 1921 the government has made a continuous effort to regulate coffee production. At first the policy was merely to market the crop evenly, but it soon became an effort to maintain artificially high prices. In 1929 this program could no longer be continued and the price of coffee dropped from its high point.<sup>20</sup>

The federal presidency was then in the hands of a Paulista, Washington Luis. It had become customary for the presidency to be rotated, no state holding the office for more than one consecutive four-year term. When Washington Luis supported another Paulista, Julio Prestes, for the presidency, politicians from the other states took the view that the Paulistas had determined to dip deeply into the federal treasury in order to save again Paulista coffee-growers from threatened bankruptcy. The *Alliança Liberal* was formed for the purpose of forestalling this possibility. The platform of the *Alliança* did not propose the withdrawal of all government support from the coffee industry—coffee was far too important an element in the national economy for such action—but it did include a plank promising "aid to agriculture, not only to coffee." Other planks called for greater independence of the judiciary and democratization of the electoral machinery.<sup>21</sup> The working class was promised social legislation.

The Prestes Column supported the *Alliança Liberal* in the elections of 1930. After the elections, Prestes himself broke with the *Alliança*. He has since joined the Communist party. However, a number of other exiled leaders of the Column—including João Alberto, Miguel Costa, Juarez Tavora and Isidoro Lopez—continued to support the *Alliança*, and returned from exile in order to participate in the military uprising in October 1930. The support lent by these democratic leaders gave to the successful revolt of 1930 the appearance of a semi-popular uprising. The controlling group in the *Alliança* centered around Flores de Cunha, Os-

report. It was widely believed in São Paulo that if this report had been published (which it was not), several influential politicians would have found their careers abruptly terminated.

20. J. W. F. Rowe, "Studies in the Artificial Control of Raw Material Supplies: No. 3—Brazilian Coffee," *Memorandum No. 34* (London, Royal Economic Society, February 1932), p. 85.

21. Agnes S. Waddell, "The Revolution in Brazil," *Foreign Policy Association, Information Service*, March 4, 1931, p. 494-95.

19. *A Gazeta* (São Paulo), January 22, 1934. This incident for a time seemed likely to develop into a major scandal. A government investigating commission made inquiries and turned in a

waldo Aranha, General Goes Monteiro and Getulio Vargas, all of Rio Grande do Sul, supported by political leaders in Minas Geraes, Rio de Janeiro and other states.

#### THE SAO PAULO REVOLT OF 1932

On first assuming office as dictator, Getulio Vargas offered the task of organizing a government in São Paulo to the Democratic party. This party, founded in São Paulo only a short time before the 1930 revolt by the venerable Antonio Prado, was the official opposition to the *Partido Republicano Paulista* (PRP) which had held the power for many years in both state and nation. The Democratic party declined the assignment and soon after disappeared. Vargas then turned to the leaders of the Prestes Column. But these, after eighteen turbulent months, proved unable to reconcile the conflicting interests in the state. On June 9, 1932 an insurgent movement enlisted the support even of the federal interventor, and the whole of the state of São Paulo, together with parts of the neighboring states of Minas Geraes and Matto Grosso, fell immediately into the hands of the rebels.

The underlying causes of this revolt were economic. They may be summarized as follows:

1. The Paulistas hoped to have the federal government and the other states carry a larger share of the burden involved in the coffee control program.<sup>22</sup>
2. The coffee growers of São Paulo sought greater assistance in the crisis from the Bank of Brazil which, they pointed out, was granting credits to the cattle-raisers of Rio Grande do Sul.
3. The manufacturers of São Paulo feared a return of lower protective duties.<sup>23</sup>
4. The São Paulo state government depended largely on the coffee export tax. Paulistas feared that the federal government would assume the right to tax exports.
5. The powerful and influential British interests in São Paulo feared the growing rapprochement between the Vargas government and the United States of America. They pointed to the conversations held at a crucial period of the 1930 revolt between Paul V. McKee, president of the American-controlled *Empresas Electricas Brasileiras*, and leaders of the *Alliança Liberal*, and demanded to know what favors were to be granted American concessionaires.

The Paulista leaders were almost certainly misled as to the amount of support they could expect from the other states. In Rio Grande do Sul, Flores da Cunha had just gone into opposition to the Vargas government. Vargas made his peace with Flores da Cunha, however, and the only help the Paulista

constitutionalists received from their *gaúcho* allies was an expression of good-will.

Fifty to sixty thousand men were in arms in São Paulo, and about as many took the field for the federal government. The civil war which ensued was the most extensive, though not the longest, that the country had ever known. The casualties, dead and wounded, have been estimated at 15,000.

The Paulistas had inadequate access to modern implements of warfare. They did succeed in obtaining ten Curtiss-Wright airplanes, which reached them from Chile by way of Paraguay,<sup>24</sup> but the machines arrived too late to influence the outcome. Hostilities ended on September 29, 1932. The Paulista defeat was due, according to one of their officers, to "absolute lack of artillery and aviation, as well as a deficiency of automatic arms."<sup>25</sup>

By the peace terms, the Vargas government permitted the leaders of the revolt to leave for Europe, agreed to grant São Paulo greater independence in its own affairs, and promised to reconsider the coffee question. It even underwrote the expenses of the revolt by guaranteeing the 400,000 contos of bonds which the state government had issued—this in spite of the fact that the federal government was engaged in an unsuccessful effort to balance its own budget. Such generosity surprised even the Paulistas.<sup>26</sup> Finally, the Vargas government set about at once to summon a constituent assembly.

It is sometimes said that the leaders of the São Paulo revolt of 1932 desired complete independence from the rest of Brazil, which would have meant independence also for other states and the disappearance of Brazil as a nation. This opinion is contradicted both by all public utterances of the responsible leaders and by the logic of the situation. Most of the inflammatory propaganda against the federal government which circulated during and after the 1932 movement advocated confederation.<sup>27</sup> Separation has been favored by only a few of the minor leaders.

#### THE 1934 CONSTITUTION

##### THE CONSTITUENT ASSEMBLY

Elections for the Constituent Assembly were held on May 3, 1933—the first election in which the

24. U. S. Senate, *Hearings before the Special Committee Investigating the Munitions Industry*, Part IV, Exhibit 364, quoted in W. T. Stone, "The Munitions Industry," *Foreign Policy Reports*, December 5, 1934, p. 257.

25. Col. Herculano de Carvalho e Silva, quoted by Manoel Osorio, *A Guerra de São Paulo* (São Paulo, Empresa Editora "Americana," 1932), p. 197, n. 15.

26. *Diário de São Paulo*, June 22, 1934.

27. Cf. Dr. Alfredo Ellis Junior, *Confederação ou Separação?* and *O Brasil Confederacionista*; and São Paulo, *Terra Conquistada*, by Leven Vampré, cited by Osorio, *A Guerra de São Paulo*, cited, p. 72.

22. Cf. p. 9.

23. Lower tariff duties had been one plank of the *Alliança Liberal*. Cf. Waddell, "The Revolution in Brazil," cited, p. 408.

secret ballot was employed. Getulio Vargas maintained that "if the revolution accomplished nothing else, it will have justified itself by having instituted the secret vote."<sup>28</sup> It must be pointed out, however, that the ballot was then, and is now in the new Constitution, restricted to the literate population.

Preparation of a draft constitution to serve as a basis for discussion was entrusted to a commission which terminated its labors on November 6, 1933, and the Constituent Assembly held its inaugural session on November 15. Amendments were considered by a commission of twenty-six, chosen from the Assembly itself, which had the duty of boiling down the disputed points so that the Assembly could discuss them. The Assembly then debated and adopted the Constitution point by point. It was signed by the 244 members of the Assembly<sup>29</sup> on July 15, 1934, and promulgated soon after.

The Brazilian Constitution of 1891, adopted when the Republic was established and altered only slightly in 1926, had been patterned after that of the United States. It provided for a bi-cameral system, with an executive elected independently, and a judiciary appointed for life by the executive, with power to pass on the constitutionality of laws.

Under the new Constitution the chief alterations relate to the following points:

The Constitution specifies that the ballot for president must be secret.<sup>30</sup> The new code virtually puts the judiciary in charge of elections, setting up a Regional Court of Electoral Justice in each state and a Higher Court of Electoral Justice, which acts as an appeal court and whose decision is final.<sup>31</sup> The Electoral Judicature makes up the lists of voters and decides allegations as to ineligibility and incompatibility.<sup>32</sup> The President appoints one-third of the judges of both the Regional Courts and the Higher Court; the panel from which the appointments are made, however, is drawn up by the judiciary itself.<sup>33</sup> One-third of the judges of the Higher Court are chosen by lot from among the judges of the Supreme Court, and another third by lot from among the appeal judges of the Federal District. The Regional Courts are chosen by an analogous system, two-thirds from the judges by lot, and one-third by appointment of the President from a panel which the Court of Appeal draws up.

28. "Report of Getulio Vargas to the Constituent Assembly," November 15, 1933, *Diário da Assembleia Nacional*, November 16, 1933, p. 27.

29. Five signed with restrictions.

30. Article 52, par. 1.

31. Article 82.

32. Article 83, b and c.

33. Article 92, par. 2, 3, 4.

#### "FUNCTIONAL REPRESENTATION"

The chief innovation in the composition of the federal Congress is the provision for "functional representation" in the Chamber of Deputies, one-sixth of whose members are to be elected as representatives of occupations and professions. The occupational representatives are elected, not directly, but indirectly through occupational associations constituted for the purpose. These associations are grouped in four divisions: agriculture and stock raising; industries; commerce and transport; liberal professions and public officials. It is provided that the total of the deputies of the first three categories shall be, at the minimum, six-sevenths of the occupational representation, distributed equally among the categories. In each of the first three categories the deputies are to be elected, half by the employers and half by the employees, the voting for these occupational representatives to be indirect—that is, by stages from the local to the national. "Labor" representation in the federal Congress may mean in practice that the government party will gain a certain number of servile adherents.<sup>34</sup>

An effect of this section is to give to employers a representation out of proportion to their number in the population. Industry, commerce, transport and the liberal professions also receive disproportionately great representation as compared with agriculture. The whole section is of Fascist inspiration.

The Constitution leaves the export taxes to the states, but the amount of such taxes is limited to 10 per cent *ad valorem*.<sup>35</sup> The income tax is reserved to the federal government.<sup>36</sup>

#### THE POSITION OF THE CHURCH

The 1891 Constitution accorded no favors to any church, except in the negative sense that it guaranteed freedom of worship. The 1934 Constitution provides that religious instruction shall be furnished in the primary, secondary, technical and normal public schools. It specifies that attendance shall be optional and that the instruction shall be imparted "in accordance with the principles of the religious faith of the pupil." Leading Brazilian educators,

34. According to a recent news dispatch, there are 1,494 unions in Brazil, of which only 364 have been recognized by the Ministry of Labor. In the Constituent Assembly there was "occupational representation" on much the same basis as that provided in the new Constitution. The "labor" representatives signed the new Constitution and then voted for Getulio Vargas for president. The employers' representatives amalgamated themselves for all practical purposes with the territorial representatives from their respective localities.

35. Article 8, 11. The federal Senate may, however, in exceptional cases authorize, for a specified period, the increase of the export tax beyond this limit. (Article 8, II, 3.) Downward revision of the export taxes which are now above 10 per cent is spread over a period of years.

36. Article 6.



however, believe that the effect of the Constitution will be to establish Roman Catholic instruction in most of the schools. The Constitution further confers on members of monastic orders the right to vote, which was denied them under the Constitution of 1891. Roman Catholic leaders are highly pleased with the new Constitution.

#### SOCIAL LEGISLATION

The Constitution provides that "there shall be no imprisonment for debts, fines or costs,"<sup>37</sup> but does not attack the basis of peonage. A provision is included which, if it were to be enforced, would mean the end in Brazil of the so-called "hook system"—the practice of arrest without warrant and indefinite detention without charges.<sup>38</sup> Some authorities, however, say that "preventive arrest" is still legal.<sup>39</sup>

Since 1930 the provisional government has recognized the legality of registered unions. The organized workers have demanded that non-registered organizations also be recognized as legal. The Constitution provides that "the law shall assure syndical plurality and the complete autonomy of the unions,"<sup>40</sup> but in practice only the registered unions enjoy political privileges and many of the non-registered unions continue to be persecuted.

Technical councils are to be attached to each ministry. At least half the members of each council are to be unpaid "experts." "Every minister is precluded from taking any decision, in matters of his exclusive competence, against the unanimous considered opinion of the respective council."<sup>41</sup> Brazilian observers doubt whether this provision will greatly affect existing practice.

#### MISCELLANEOUS PROVISIONS

The Constitution reduces the minimum age for voting to 18 years, and grants the vote to women on a basis of equality with men. It contains several provisions designed to exclude the foreign-born from participation in Brazil's public life.<sup>42</sup> It provides that the Chamber of Deputies is to be elected "by means of a proportional system."

The Constitution provides that the law shall formulate regulations as to the progressive nationalization of the deposit banks and of the mines, mineral deposits and waterfalls or other sources of hydraulic energy, deemed basic or essential for the economic or military defense of the country.<sup>43</sup> On the payment of due compensation, the federal gov-

ernment may monopolize any industry or economic activity.<sup>44</sup> Legislation under these heads seems likely to be indefinitely delayed.

In accordance with the transitory provisions of the Constitution, the Constituent Assembly balloted for the first president under the new régime, and Getúlio Vargas received a majority of the votes. The Constituent Assembly then transformed itself into a legislative assembly until the first regularly elected Congress could be convened. The voters throughout the country were summoned in October to elect members for the national Chamber of Deputies, and at the same time to choose state constituent assemblies. These assemblies were then to select the state governors, and also the representatives of the states in the federal Senate. The new system was to enter into full force with the election of the professional representatives to the Chamber of Deputies in January 1935.

The sections of the Constitution which dealt with the Church were rather severely criticized in some quarters as representing a move toward the establishment of an official church, while certain critics considered that the few changes made by the convention had not justified the expense involved in its sessions. The new electoral code, however, caused general satisfaction. The experience of São Paulo in this connection was illuminating. The *Partido Republicano Paulista* was decidedly critical because the provisions regarding distribution of taxing power were considered a sacrifice of the Paulista interests. But a group of Paulista leaders decided to accept the Constitution because they considered the new electoral code a marked improvement over the old one. They founded a new party, the Constitutionalist party. In the elections of October 14 the Constitutionalist party polled four votes to every three for its only serious rival, the old PRP.

The most serious test of the new electoral code came in Sergipe, where the prompt intervention of the newly created Electoral Tribunals prevented the military interventor from completely stifling opposition to his rule. The opposition carried the elections in October. But political action in other parts of the country by working-class organizations having a revolutionary program did not receive the same protection. A number of candidates of the *União Operária e Camponesa* were arrested and held in spite of habeas corpus proceedings, and election meetings supporting the *União* were prevented altogether or violently broken up by the police.<sup>45</sup>

37. Article 113, 30.

38. Article 113, 21.

39. *Diário de São Paulo*, August 9, 12, 1934.

40. Article 120.

41. Article 103.

42. Articles 23, 24, 52, 59, 74, 89, 131, 133, 136.

43. Articles 117, 119.

44. Article 116.

45. *Jornal do Povo* (Rio de Janeiro), October 16, 1934, p. 10 *passim*.



In Ceará, the Catholic Electoral League administered a stinging defeat to Major Juarez Tavora. The eclipse of Tavora is the last stage in the disintegration of the Prestes Column.

*A Nação* estimates on the basis of the early returns that out of the 250 members of the Chamber of Deputies elected on October 14 "Getulio Vargas will have to confront . . . an ardent minority of at least 80, a matter which is of the greatest seriousness from the political point of view because without precedent in the annals of the Republic, at any rate at the beginning of a government."<sup>46</sup>

## ECONOMIC RESULTS OF THE VARGAS REGIME

### COFFEE CONTROL

The complete collapse of the price of coffee, which declined from 24.8 cents a pound in March 1929 to 7.6 in October 1931,<sup>47</sup> wrought havoc with Brazil's economy. The first, and most urgent, economic task of the new government was to keep the tremendous excess stocks of coffee which had been accumulating in São Paulo from reaching the market. The alternative, in the words of a competent foreign observer, was the ruin of "almost every planter, every commissario, every Brazilian bank, and the financial standing of the Federal and State governments."<sup>48</sup> Eventually the federal government decided to burn the excess coffee, at the same time severely limiting new plantings. The funds for the operation were obtained through a tax on the new crops of coffee. By the beginning of 1934, 26 million bags of coffee had been burned and the excess eliminated. The price of coffee, which had remained low while the huge surplus overhung the market, took a bound upward. But it soon became evident that the 1933-1934 crop was of record size,<sup>49</sup> and even the resumption in April 1934 of coffee-burning did not prevent the price from experiencing a new decline during the last half of 1934.

The present status of the coffee valorization plan is briefly as follows. The policy followed up to 1929, of storing coffee in São Paulo in order to keep up the price, had stimulated new planting of coffee trees beyond all reason, both in Brazil and other countries. The enormous surplus has been destroyed; but the heavy plantings of 1929 have only just come into full bearing, so that current pro-

duction continues to be heavy. For the present, then, the program of coffee-burning is being continued, financed as before by a tax of 15 shillings a bag on new coffee. This situation will not continue indefinitely because new plantings after 1929 were virtually limited to a few small new zones such as the Upper Paraná. Within the next year or two, production will have dropped enough so that government control will certainly be abated and might conceivably be abandoned altogether. Meanwhile, the coffee trade is becoming increasingly restive. The coffee commission merchants in the Rio market went on strike for five days from February 1, 1935 through February 5. At this time the São Paulo Rural Society, representing coffee growers, demanded that the 15-shilling tax on coffee be reduced, that the National Coffee Department, which has been administering the control program, be abolished, and the exchange restrictions revoked.<sup>50</sup>

### FOREIGN DEBTS

As the price of coffee dropped, Brazil's means of making payments abroad declined also.<sup>51</sup> When Vargas became dictator, the gold reserve was nearly exhausted.

The world-wide crisis dried up the sources of foreign loans, and the ever-recurring budgetary deficits<sup>52</sup> of the federal government have conse-

50. *New York Times*, February 6, 1935.

51. World consumption of coffee increased only slightly during the period 1927-1933.

#### WORLD COFFEE CONSUMPTION\*

YEAR	CONSUMPTION (bags of 132 lbs.)
1927-28 .....	23,536,000
1928-29 .....	22,251,000
1929-30 .....	23,554,000
1930-31 .....	25,091,000
1931-32 .....	23,723,000
1932-33 .....	22,848,000

\*Brazil 1933, p. 86-87.

52. The chronic shortage of funds in the government's possession may be illustrated by the following table:

#### BUDGETARY POSITION IN CONTOS OF REIS (Paper Money)

Year	Revenue	Expenditure	Deficit	Surplus
1919 .....	593,130	921,158	328,028	.....
1920 .....	650,182	646,444	.....	3,738
1921 .....	887,638	1,282,289	394,651	.....
1922 .....	971,726	1,427,761	456,035	.....
1923 .....	1,279,730	1,491,044	211,314	.....
1924 .....	1,613,986	1,680,329	66,343	.....
1925 .....	1,758,104	1,715,997	.....	42,107
1926 .....	1,647,888	1,823,569	175,681	.....
1927 .....	1,995,382	2,057,589	62,207	.....
1928 .....	2,216,437	2,362,212	145,775	.....
1929 .....	2,201,245	2,391,122	189,877	.....
1930 .....	.....	.....	832,590	.....
1931 .....	.....	.....	293,955	.....
1932 .....	.....	.....	1,108,878	.....
1933 .....	.....	.....	220,000	.....
1934 (preliminary) .....	.....	.....	800,000	.....

The deficit in 1935, according to budget estimates, will be in

46. *A Nação* (Rio de Janeiro), October 23, 1934, p. 1.

47. Rowe, "Studies in the Artificial Control of Raw Material Supplies: No. 3—Brazilian Coffee," cited, p. 85.

48. *Ibid.*, p. 54.

49. A preliminary estimate showed that the crop in Brazil alone would be some 5 million bags in excess of probable world consumption.

quently been met by the issuance of government obligations and by loans from the Bank of Brazil.

When means of making payments abroad became scarce, all foreign exchange transactions were put under the control of the Bank of Brazil in September 1931. A three-year moratorium was declared as of October 17, 1931 affecting all the foreign indebtedness of the states and counties and all the

foreign indebtedness of the federal government except the 5 per cent Funding Loan of 1898 and the 5 per cent Funding Loan of 1914; service in full of the 1922 7½ per cent Coffee Security Bonds had already been provided for.<sup>53</sup> The provisional government then proceeded to catalogue all the foreign debts of the federal government, the states and the counties. The results are summarized below.<sup>54</sup>

	<i>Borrowed since 1889</i>	<i>Owing in 1889</i>	<i>Total</i>	<i>Paid Back</i>	<i>Still owing in 1933</i>
Federal government ...	£400,000,000	£32,000,000	£432,000,000	£279,000,000	£153,000,000
States and counties .....	202,083,865	.....	202,083,865	107,479,460	94,604,405
Total .....	£602,083,865	£32,000,000	£634,083,865	£386,479,460	£247,604,405

There was also outstanding, in October 1932, a domestic debt totalling 2,510,652,900 milreis.<sup>55</sup>

On February 5, 1934 the federal government issued a decree according to which payments on external loans of federal, state and county governments were to be made in varying amounts during the four-year period from April 1, 1934 to March 31, 1938. The decree provided that not later than the end of September 1937 the federal government would again review the financial condition of the country in order to determine the disposition of future service charges on the external debt. The outstanding obligations were classified into eight groups to which varying treatment was accorded. Only on the three funding loans was full service provided. By this decree annual service of the Brazilian foreign debt was reduced from more than £20,000,000 to about £8,000,000.

#### EXCHANGE CONTROL

The fundamental difficulty of repaying foreign indebtedness was due partly to a deficiency of funds in Brazil, but chiefly to a shortage of foreign exchange. For three years following September 1931 the government divided the bills of exchange arising from exports of merchandise into three classes:

(a) The official exchange. This included 89 per cent of the coffee export bills and 25 to 50 per cent of the bills arising from the export of other products. It was paid for at a rate somewhat below that which would have resulted from a free market, and was used primarily to discharge the govern-

ment's obligations abroad, the balance being sold, still at the cheap "official" rate, to selected applicants for private use.

(b) The "gray" exchange. This consisted of 11 per cent of the coffee export bills and 50 to 75 per cent of the bills arising from the export of other products. On the gray market, Brazilian exporters sold the balance of their exchange left over after deduction of the share claimed by the government. They were permitted to charge from 2 to 5 milreis per dollar above the "official" rate.

(c) The "black" exchange. This was illegal, and was utilized mostly by persons desiring to remit small amounts. Hermes Cossio, "king of the black exchange," who was arrested in April 1934, had established illicit connections with certain government officials and embezzled money entrusted to him for transmission abroad.

Balances due to foreigners piled up in Brazil, and in May 1933 a "thawing agreement" was concluded. Holders of "blocked" accounts not exceeding 665,000 milreis were to receive exchange in full at the official rate of exchange. Holders of more than 665,000 milreis in blocked accounts received dollar and sterling bills issued by the Bank of Brazil, equivalent at 13.965 milreis per dollar and 61.557 milreis per pound sterling to the amount of such accounts, plus 12 per cent for interest. These bills were to be liquidated in 72 equal monthly instalments beginning August 1, 1933, guaranteed by the Brazilian government. The Bank of Brazil agreed to reserve out of exchange arising from exports the amounts necessary to pay the bills on maturity.<sup>56</sup> For 17 months, payments were made punctually under this agreement.

On September 10, 1934 the proportion of coffee export bills retained by the government was reduced from 89 to 83 per cent. At the same time the Bank of Brazil abandoned its monopoly of ex-

56. *Ibid.*, p. 10.

excess of 500,000 contos. Figures through 1929 from Chamber of Deputies, Committee on Finances, *Exposé* submitted to the committee by Dr. Mario Brant, Federal Deputy (Second Edition, Rio de Janeiro, 1930), p. 9.

53. *Brazil* (New York), October 1931, p. 7. A new funding loan was arranged in 1933.

54. *Diário da Assembleia Nacional*, Ano I, No. 6 (November 16, 1933), p. 38, and *Diário de São Paulo*, February 17, 1934.

55. Institute of International Finance, *Bulletin* No. 69 (New York, April 23, 1934), p. 14.

change transactions and reestablished the free market. Coffee exporters were permitted to sell in the free market the 17 per cent of the coffee export bills they retained.

On December 4 the Bank unexpectedly announced a plan for allocating 85 per cent of the exchange available for import coverage according to the country from which the imports came. Each country was to receive exchange in proportion to its consumption of Brazilian coffee. To the United States, as principal coffee consumer, went 46 per cent of the exchange; to France, 13 per cent. Britain, which takes only one per cent of Brazil's coffee, under this arrangement was obliged to compete with a number of other countries for the 15 per cent of exchange not automatically prorated.

On January 2, 1935 Senhor Marcos de Souza Dantes, Exchange Director of the Bank of Brazil, announced that owing to the drop in coffee prices and exports the government was not in a position both to meet its debt obligations and supply coverage for payment of imports, and that foreign debt payments would consequently be suspended. Three days later foreign debt payments were resumed, and Senhor Souza Dantes resigned. At the same time a financial mission, consisting of Senhor Souza Dantes, Finance Minister Arthur de Souza Costa, and Senhor Sebastião Sampaio, left Rio to visit the United States and Britain and straighten out Brazil's financial tangle.

On February 2 this mission concluded in Washington a new trade agreement with the United States considered so important that the signing took place at the White House. It contained reciprocal tariff reductions and a guarantee by Brazil to continue payments on its debt held in the United States. At the same time, in a note addressed to the Washington administration, the Brazilian government declared that the Bank of Brazil would provide sufficient exchange to pay for future imports from the United States and would furnish an additional amount of exchange sufficient to liquidate gradually the then existing American deferred commercial indebtedness. The latter undertaking presumably constitutes a prorogation of the thawing agreement. Brazil, moreover, undertook to grant the United States most-favored-nation treatment in the allotment of exchange made available for the transfer of profits, dividends and the expenses incurred by foreign commercial enterprises operating in Brazil.<sup>57</sup>

It is evident that by the trade agreement, as well as the financial note, Brazil grants substantial trade advantages to the United States. Since it seems un-

likely that similar concessions will be granted any other country by Brazil, observers believe that the traditional political friendship between the two nations is now being cemented by economic ties.

The Brazilian Foreign Trade Council took a further step toward reestablishing the free market for exchange on February 11, shortly after the conclusion of the strike on the coffee exchange, when it reduced the percentage of coffee export bills to be deposited with the Bank of Brazil from 83 to 35 per cent.<sup>58</sup> Coffee dealers were reported jubilant, since the obvious effect of the decree was to enable exporters to sell abroad at a lower price and thus stimulate sales. The government has not entirely abandoned its control over imports. It still aims to allocate the available exchange to "bona fide" imports rather than to speculators, and still undertakes to supply 60 per cent official coverage for imports received prior to February 11.<sup>59</sup>

With regard to internal debts of private interests, a Law of Economic Readjustment went into force on December 2, 1933. Its effect was to cancel 50 per cent of agriculturists' mortgage debts, and 50 per cent of all debts of agriculturists to banks and financial houses in cases where the debtor was insolvent. The creditors were to receive 6 per cent (later changed to 5 per cent) bonds of the federal government in compensation for the amount so cancelled. At the end of August 1934 it was officially stated that the government was on the point of making the first liquidations.<sup>60</sup> Since an insolvent debtor is no more able to pay half his debt than his whole debt, the chief beneficiaries of the law are the banks.

In 1932 banks were given permission to rediscount with the Bank of Brazil bonds issued for the financing of industrial, agricultural and pastoral production. On August 11, 1934 a National Bank of Rural Credits was created, to which the government advanced 100,000 contos as capital.

## SOCIAL FORCES IN BRAZIL

In Brazil, as in other countries, the period 1930-1934 has been marked by the growth of both Communist and Fascist sentiment. Booksellers find their best business in classics of Marxism-Leninism now being translated into Portuguese for the first time. The wage-earning class is split politically; in São Paulo there were recently said to be thirteen political parties competing for the allegiance of the proletariat. But this diversity of political sentiment has

58. *Wall Street Journal*, February 13, 1935. A requirement that coffee exporters should deposit 155 francs with the bank for each bag of coffee exported was abolished at the same time.

59. *New York Times*, February 18, 20, 1935.

60. *Diário de São Paulo*, August 28, 1934; also *ibid.*, May 22, 1934.

57. Council on Inter-American Relations, *Bulletin No. 31*, February 8, 1935, p. 2.



not prevented the recent crystallization of class-consciousness and the organization of a militant strike movement. The illegal Communist party is gaining adherents and furnished leadership in the wave of strikes that has rocked the government in recent months. Between July and September 1934 general strikes took place in Juiz de F6ra, Bel6m (Par6), Bello Horizonte, Petropolis and Bah6a, and a near-general strike occurred in Santos. In the early part of October, 20,000 textile operatives were on strike in Rio and S6o Paulo.

The nearest approach to an authentic Fascist movement is the *Integralist Action*—organized on a serious basis in August 1932. In some street battles with groups of workers the *Integralists* have been worsted. An organized demonstration of *Integralists* in the Pra6a da S6, S6o Paulo, on October 7, 1934 was broken up, and in the ensuing m6l6e at least 14 people were killed. Eyewitnesses state that the militia, called out to protect the demonstrators, fraternized with the *Integralists'* opponents instead.

In the country districts wage cuts of 60 per cent have been common. Many planters have stopped paying money wages and left the *colonos* and their families to exist on their own garden crops and such advances as they could continue to get from the commissary.<sup>61</sup> The discontent of the rural workers is unorganized but profound.

The S6o Paulo revolt of 1932 has not been the only military uprising against the Vargas government. One writer lists 20 minor military uprisings in 1931 alone.<sup>62</sup> Some of the recent strikes have been political, directed against the government itself.

## CONCLUSION

In order to secure power, the group around Getulio Vargas made promises of a liberal-democratic character which have not been realized. The disintegration of the wing of the government usually considered to be the bearer of its democratic aspirations has led some observers to predict reaction rather than advance for the immediate future.<sup>63</sup> The government has shown decided sympathy for Fascist methods and policies.

The new Constitution makes a beginning—it can hardly be called more than that—in democratiza-

tion of the electoral apparatus. At the same time, the standard of honesty and efficiency in public administration, which was never very high, has not been raised under the Vargas r6gime. Graft is still prevalent, and the federal services are admittedly still overstaffed and bureaucratic.<sup>64</sup>

The Vargas government has been rather severely criticized for its failure to balance the budget. It is pointed out that Brazil embarked on a naval building program at the very time it was defaulting on its national debt.<sup>65</sup>

In its handling of the economic crisis the Vargas government has not anticipated events but has followed after them. Where it has interfered, as in the handling of exchange, the results have not always been happy. The partial economic recovery of Brazil in 1934 is not to be attributed to the policies of the Vargas group, since this recovery has been shared also by other countries.

It is true that the workers have enjoyed since 1930 a degree of freedom in organization that they had never had before. This freedom, however, has been permitted largely because the central government needed some kind of popular basis if it was to continue in power. Behind the fa6ade of government-sponsored unions and gestures toward labor legislation, the government has carried on an unrelenting warfare against militant labor organization in independent unions and against proletarian political organizations, notably the Communist party and the League against War and Fascism.

The modernization of the productive apparatus, especially in agriculture, has proceeded slowly and without much assistance from the government. Coffee valorization and coffee burning have been violently attacked outside Brazil, although less violently since the American government began to destroy essential foodstuffs. The elimination of the coffee surplus capacity has proceeded slowly, with the government approving rather than directing the movement, and no permanent plan of coffee control has been evolved. The promise to break up the *latifundia* has remained on paper; no plan to that end has been presented. In the field of education the government's chief move has been to strengthen the Roman Catholic Church. Brazil's vital problems, political and economic, remain to be solved.

61. Speech of Getulio Vargas to Constituent Assembly, November 15, 1933; cf. *Di6rio da Assembleia Constituinte*, November 16, 1933.

62. "Augusto Machado," *A Caminho da Revolu66o Oper6ria e Camponesa* (Rio, Calvino Filho, 1934), p. 70.

63. Numerous strikes have been called in recent weeks in protest against the projected "National Security Act" which would limit freedom of assemblage and of the press.

64. Cf. Rowe, "Studies in the Artificial Control of Raw Material Supplies: No. 3—Brazilian Coffee," cited. In the U. S. Senate investigation already referred to, there were introduced in evidence documents purporting to show that sales agents in Brazil of American munitions firms had given Christmas presents to various politicians or government officials.

65. Stone, *The Munitions Industry*, cited, p. 259.